

IFR4NPO Annex- Part A – UK-Ireland SORP-making body response

1a Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not, why not? Which alternative characteristics would you propose and why?

Refer to our covering letter for the context to our response to this and the other consultation questions.

It is a pragmatic approach to define the boundary of a Non-profit Organisation (NPO) by reference to broad characteristics with public benefit being the underlying premise. In respect of the four characteristics that are exhibited by a NPO for the purposes of the guidance:

- deliver services for public benefit is too narrowly drawn as NPOs may be providing amenities, such as nature reserves or open spaces or scenic views or goods in addition to services for the public benefit.
- direct any profits/surpluses for public benefit would certainly apply for charities but may preclude member organisations that distribute benefits to members but that is accepted if this is the intention of the authors.
- may have significant voluntary funding and grant income is not necessarily restricted to public benefit since Government may choose to offer for-profit entities grants. Instead consider whether the organisation solicits voluntary contributions and funding to further its activities for the public benefit. Arguably it is not the method of financing but rather the motive for financing which is the distinguishing feature here.
- hold and use assets for social purposes might better be framed as hold and use assets for the public benefit. A lawful activity undertaken by a for-profit entity that creates employment and raises living standards also fulfils a social purpose but the distinction here is that social benefit is ancillary to the motive of achieving a profit for distribution to owners and investors.

Arguably all NPOs should be established primarily for public benefit and this would be a common distinguishing characteristic from other entities that to a greater or lesser degree mainly seek to distribute a return or profit to owners and investors.

2a Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not why, not? What alternative groups would you propose NPOs can be accountable to and why?

The distinctive feature of non-profits is social purpose in providing goods and services, facilities, or amenities, including the preservation and promotion of arts, heritage and culture, for the enrichment of society. In many respects some aspects of these activities can, and are, undertaken by for-profits or government but the motives, basis and social purpose of their provision is very different having the making of profit or financial return or political choices respectively at their heart. These differences should be reflected in the arrangements for financing, accounting and financial reporting, however the non-profit sector is not itself uniform in character ranging from mutuals and co-operatives through to charities in the UK context.

In the context of the SORP reporting is framed with the general purpose user in mind with particular reference to those financing the work of the charity and those benefitting from its work. Research undertaken by the UK charity regulators has clearly demonstrated that funders want to know how the money was spent and what difference or impact came from the charity's work. By demonstrating that impact or difference then other stakeholders interested in the societal impact are also served.

In contrast, framing reporting with regulators in mind has tended towards encouraging minimalistic, compliance based reporting aimed not at informing the public but rather achieving an acceptable regulatory filing. Regulators have an interest but often have regulatory powers to require additional information for their oversight of the regulated sector.

2b Do you agree that NPO stakeholders require information on an NPOs achievements of objectives of economy, efficiency and effectiveness, compliance with restrictions and regulations and longer-term financial health for accountability and decision-making purposes? If not, why not? What alternative areas would you propose and why?

Evidence from research undertaken by the UK charity regulators of the wider public interest in charities would not support a narrow value for money based narrative of economy, efficiency and effectiveness. The focus is on what the entity is set up to do, what it did and the difference or impact of what it did for those it was established to help.

Modifying the value for money approach to consider clearly showing how the money is spent, how assets are used and the activities supported is a more nuanced framework that better meets our understanding of charity stakeholders' needs. Effectiveness is best expressed in understanding the difference a charity makes which may not be exclusively based on evaluation of performance against metrics and norms, were such available. Refer to the SORP web site for more details of the insights from our research:

https://www.charitySORP.org/media/649771/131120_paper_1_public_trust_presentation.pdf

Adherence to law and regulatory requirements is a necessary condition for the social licence to operate but our observation is that the existence of registration, regulation or licensing frameworks for NPOs often cover some of these elements but we agree these reporting relevant elements of compliance, for example registration number, are necessary to provide that public assurance.

We would advocate requiring details of the governing body, term or basis of appointment, and details of the social purpose for which the NPO is established along with its intended service user or beneficiary community. At its core, good reporting in our view is about setting out what the NPO is set up to do, who runs it and how it operates, what activities it undertook with the resources it has and what difference those activities made.

2c Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not, why not? Are there any other issues with accountability and decision-making arrangements particularly with financial accountability with donors that you would wish to highlight?

Our observation is that high quality financial reporting is a necessary but not sufficient condition for receiving funding from certain donors or funders of the sector. Similarly, the State in a jurisdiction may require reporting on particular items reflecting matters considered of public concern in that jurisdiction, for example the nature of any fundraising activities undertaken. The advantage of the IFR4NPO initiative is that by providing guidance on high quality reporting this may provide a higher level of assurance to funders and stakeholders and so reduce the additional reporting requirements that may be imposed as a condition of funding.

3a What, if any, do you see as the main challenges with Guidance that is accrual-based?

Our experience of accruals based accounting is that there are two main challenges: skill levels and practitioner awareness of the distinct nature of charity accounting.

Skill levels - accruals accounting requires an understanding of accounting principles and practice and amongst volunteers keeping accounts who may have no accounting background and this is a major obstacle to effective accounts preparation. Our experience is that this skills gap can be partly addressed by templates, examples and advice or guidance in addition to accounting standards but it remains an ongoing issue, especially for smaller charities. It is likely to be beyond the gift of the IFR4NPO project to resolve this.

Awareness - even amongst qualified accountancy practitioners, due to the examination syllabus being framed around for-profit accounting standards, practitioners all too often do not check to see if a dedicated framework exists and instead look to tailor a for-profit reporting approach based on their experience. In this regard the IFR4NPO project, by raising the profile of NPO accounting, may be part of the solution and having the guidance will assist those practitioners in jurisdictions where there is no existing framework for NPO accounting.

3b What, if any, do you see as the main challenge of Guidance that includes non-financial reporting?

We concur that accounts alone are insufficient to provide a commentary on an entity's use of resources and having narrative information is a common requirement across government, for-profit and NPO reporting requirements.

We agree that 'General Purpose Financial Reports that include non-financial information can best meet the common information needs of stakeholders. Reports that include non-financial information can provide the additional context needed for accountability and decision-making purposes, such as an understanding of an entity's objectives, strategy, risks, and performance (Part A paragraph 3.32)'.

In spanning charity law jurisdictions in the UK and Ireland, the SORP-making body is looking to develop a core of good reporting in recognition that particular jurisdictions will require some degree of additional jurisdiction specific reporting.

Establishing that common core of reporting across the world is a major challenge for the IFR4NPO project. The SORP differentiates those things that 'must' be reported from other aspects that are discretionary and we commend this approach as a mechanism to achieve a workable compromise.

4a Do you agree that international frameworks are the best start point for the Guidance? If not, why not?

We agree that in the absence of a conceptual framework for the development of non-profit accounting standards, referring to existing standards and frameworks is a pragmatic approach. This adaptive approach has been deployed in the UK since 1988 with the Charities Statement of Recommended Practice (SORP) and other public benefit entity SORPs. We would note that this adaptive approach is not without its challenges, in particular the underlying premise that accounting treatments and presentations developed for for-profit business or government entities in mind necessarily have equal validity in their application to non-profits.

4b Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks? If not, why not and what other criteria do you believe could be used and why?

Since no framework has been developed with NPOs in mind from first principles, it is pragmatic to look at what is available internationally with particular reference to frameworks with which accountancy practitioners are likely to be familiar. Of these IFRS is the most widely known with IPSAS relatively little known and not widely adopted for government reporting.

As a starting place the approach offers a logical way forward but the caveat is that where the existing solutions are not a good fit, then the guidance needs to innovate with a novel solution but in the absence of a conceptual framework such innovation is likely to be problematic. Looking to those NPO solutions, such as the SORP, offers a way forward in identifying novel solutions or adaptations for wider adoption.

4c Do you agree with the high-level assessment of the existing international frameworks against these criteria? If not, why not? What assessment would you make and why?

For the reasons set out in our covering letter we believe that adapting either IPSAS or IFRS is a flawed solution in the longer term but in the interests of creating the foundations for the next step the IFR4NPO project offers a promising start and a very valuable framework of guidance in adapting IFRS for SMEs for use by NPOs.

5a What do you see as the main challenges, if any, with the proposed Guidance model and the use of the IFRS for SMEs Standard as the foundational framework? What, if any, alternative model and/or foundational framework do you suggest would be more suitable and why?

For the reasons set out in our covering letter we support adapting the IFRS for SMEs for use by NPOs as the most proportionate and pragmatic solution from all the options available.